



Washington State Auditor's Office

Troy Kelley

Integrity • Respect • Independence

Financial Statements Audit Report

City of Milton

Pierce County

For the period January 1, 2012 through December 31, 2013

Published January 22, 2015

Report No. 1013472





**Washington State Auditor
Troy Kelley**

January 22, 2015

Mayor and City Council
City of Milton
Milton, Washington

Report on Financial Statements

Please find attached our report on the City of Milton's financial statements.

We are issuing this report in order to provide information on the City's financial condition.

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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SCHEDULE OF AUDIT FINDINGS AND RESPONSES

**City of Milton
Pierce County
January 1, 2012 through December 31, 2013**

2013-001 The City's internal controls were inadequate to ensure accurate financial reporting.

Background

It is the responsibility of City management to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting.

Description of Condition

Our current audit identified the following significant deficiencies in internal controls:

- City staff responsible for compiling the City's financial statements does not fully understand the Budgeting Accounting and Reporting system Manual reporting requirements.
- The City's general ledger software was not properly configured for accurate cash basis reporting.
- There was no separation of duties between journal entry preparation, review, and entry into the accounting system.
- The City lacked procedures to support the completeness and accuracy of its monthly reconciliations between the City's accounting records and bank accounts. The bank reconciliation process was not effective and resulted in inaccurate financial information.
- The City lacks an internal control procedure to review the year-end financial statements to ensure they are complete and agree to the supporting accounting and bank records.

Cause of Condition

City management did not ensure staff preparing the financial statements received adequate training. The City also did not provide adequate resources to ensure internal controls were in place over City finances.

Effect of Condition

The City's process for financial statement preparation did not ensure its financial reporting was complete, accurate, and in accordance with the prescribed basis of accounting and reporting. These conditions can delay the audit process and result in increased audit costs. As a result, the City's financial statements contained the following errors:

2012

- Ending cash and investment balances did not reconcile to amounts held in the City's bank accounts. Reported balance was understated by \$38,133 after netting all the errors affecting cash and investments.
- Cash and investments of the Municipal Court Fund were improperly reconciled, overstating ending cash and investment balance by \$36,169.
- Open period expenditures were overstated \$87,931; the actual amount was \$32,334.
- In both 2012 and 2013, the City obtained capital assets on credit. For 2012, the City incorrectly reported this as both revenues and expenditures. This overstated revenues and expenditures by \$90,107.

2013

- Ending cash and investment balances did not reconcile to amounts held in the City's bank accounts. Reported balance was understated by \$39,188, after netting all the errors affecting cash and investments.
- Cash and investments of the Municipal Court Fund were improperly reconciled, overstating ending cash and investment balances by \$37,007.
- Open period expenditures were overstated \$52,378; the actual amount was \$11,742.
- In both 2012 and 2013, the City obtained capital assets on credit. For 2013, the City incorrectly reported this as revenues, but did not report any associated expenditure. This overstated revenues and ending cash and investments by \$273,740.
- Although the City reported 2 separate special revenue funds to account for REET monies, they did not report any of the \$151,551 in REET revenues or \$96,046 in expenditures within those funds.

Recommendation

We recommend the City dedicate adequate resources and training to staff to ensure financial information and reporting are accurate and complete. We also recommend the City establish and follow effective internal controls to ensure:

- The City's financial reporting is complete, accurate, and in accordance with the basis of accounting and reporting prescribed in the *Budgeting, Accounting and Reporting Standards* manual;
- Someone knowledgeable of the *Budgeting, Accounting and Reporting Standards* manual requirements, and independent of the financial statement preparation process, performs a thorough review of the financial statements and supporting schedules to ensure they are accurate, complete and presented in accordance with requirements.

City's Response

The City acknowledges the Finding reported for the financial periods 2012 and 2013.

The City's position is that steps were taken by the administration to cover the areas identified in the auditor's finding. City administration, the Finance Committee, and finance staff provided financial oversight. Training was budgeted and encouraged; it was even sometimes registered and paid for, but not attended. On two previous occasions, the State Auditor's Office stated that the finance director was reconciling to the bank statements.

The City has hired staff familiar with Cash Basis Accounting as prescribed by the Budgeting Accounting and Reporting System as published by the State Auditor's Office. The City is in the process of changing financial accounting systems to a Cash Basis program and the system will be configured for accurate, verifiable reporting.

All activities of the Finance Office are reviewed, and internal controls are in place to reasonably assure the accuracy of reports. Prior year adjustments will be made to correct balances as identified with this audit. Documentation will be provided to finance staff and elected officials that prove the accuracy of the reconciliation of Bank Accounts to the General Ledger. Current staff will take advantage of pertinent training as offered and budgeted for.

Auditor's Remarks

We thank the City for the prompt attention to these matters. We will review the City's controls in our next audit.

Applicable Laws and Regulations

RCW 43.09.200 states in part:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

The *Budget Accounting and Reporting System Manual - Accounting, Accounting Principles and General Procedures, Internal Control*, states:

Internal control is a management process for keeping an entity on course in achieving its business objectives, as adopted by the governing body. This management control system should ensure that resources are guarded against waste, loss and misuse; that reliable data is obtained, maintained, and fairly disclosed in financial statement and other reports; and resource use is consistent with laws, regulations and policies.

Each entity is responsible for establishing and maintaining an effective system of internal control throughout their government.

Government Auditing Standards, July 2007 Revision – Section 5.11 provides that auditors should report material weaknesses and significant deficiencies in internal control.

The American Institute of Certified Public Accountants, Statement on Auditing Standards No. 115 defines significant deficiencies and material weaknesses as follows:

- a. Significant deficiency: A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
- b. Material weakness: A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**City of Milton
Pierce County
January 1, 2012 through December 31, 2013**

Mayor and City Council
City of Milton
Milton, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the City of Milton, Pierce County, Washington, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated November 24, 2014.

We issued an unmodified opinion on the fair presentation of the City's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the City using accounting practices prescribed by Washington State statutes and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings and Responses as Finding 2013-001 that we consider to be significant deficiencies.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

CITY'S RESPONSE TO FINDING

The City's response to the finding identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

November 24, 2014

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Milton Pierce County January 1, 2012 through December 31, 2013

Mayor and City Council
City of Milton
Milton, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Milton, Pierce County, Washington, for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 14.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's

judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, the City of Milton has prepared these financial statements to meet the financial reporting requirements of Washington State statutes using accounting practices prescribed the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the City of Milton, for the years ended December 31, 2013 and 2012, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. The effects on the financial statements of the variances between GAAP and the accounting practices the City used, as described in Note 1, although not reasonably determinable, are presumed to be material. As a result, we are required to issue an adverse opinion on whether the financial statements are presented fairly, in all material respects, in accordance with GAAP.

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City of Milton, as of December 31, 2013 and 2012, or

the changes in financial position or cash flows for the years then ended, due to the significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

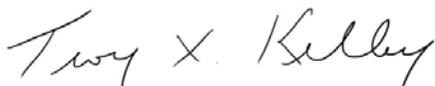
Other Matters

Supplementary and Other Information

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedules of Liabilities are presented for purposes of additional analysis, as required by the prescribed BARS manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2014 on our consideration of the City’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City’s internal control over financial reporting and compliance.



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

November 24, 2014

FINANCIAL SECTION

**City of Milton
Pierce County
January 1, 2012 through December 31, 2013**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2013
Fund Resources and Uses Arising from Cash Transactions – 2012
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SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2013
Schedule of Liabilities – 2012

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2013

BARS Code		Total for All funds*	001 General	101 Streets	103 Strategic Reserve
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	3,179,337	323,526	0	812,379
30880	Beg Fund Bal-Unreserved	8,799,477	463,193	22,400	0
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	4,209,080	3,951,004	0	0
320	Licenses & Permits	99,706	92,350	0	0
330	Intergovernmental Revenues	1,129,987	256,697	148,080	0
340	Charges for Goods and Services	7,002,573	133,216	250	0
350	Fines & Penalties	102,930	102,930	0	0
360	Miscellaneous Revenues	255,364	68,405	547	-18,295
Total Operating Revenues:		12,799,640	4,604,603	148,877	-18,295
Operating Expenditures					
510	General Government	994,315	994,315	0	0
520	Public Safety	3,159,856	3,034,616	0	0
530	Utilities	5,687,365	2,716	0	0
540	Transportation	508,323	34,135	335,655	0
550	Natural and Economic Environment	244,485	244,485	0	0
560	Social Services	10,504	10,504	0	0
570	Culture And Recreation	146,757	125,374	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		10,751,604	4,446,144	335,655	
Net Operating Increase (Decrease):		2,048,036	158,458	-186,778	-18,295
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	25,698	1,086	0	0
391-393	Debt Proceeds	273,740	0	0	0
397	Transfers-In	1,334,019	263,500	321,046	0
Total Nonoperating Revenues:		1,633,457	264,586	321,046	
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	24,612	24,612	0	0
591-593	Debt Service	445,438	20,105	96,277	0
594-595	Capital Expenditures	1,414,987	43,428	6,346	0
597	Transfers-Out	1,334,019	370,241	34,907	0
Total Nonoperating Expenditures:		3,219,056	458,386	137,530	
Increase (Decrease) in Cash and Investments		462,437	-35,343	-3,262	-18,295
Ending Cash and Investments					
50810	End Fund Bal-Reserved	4,018,298	311,966	0	794,084
50880	End Fund Balance-Unreserved	8,422,953	439,411	19,138	0

The accompanying notes are an integral part of this Statement.

BARS Code		105 Drug Seizure	107 Criminal Justice	116 Community Events	118 Reserve Officers
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	0	40,000	0	0
30880	Beg Fund Bal-Unreserved	12,944	213,893	0	4,109
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	0	107,041	0	0
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	0	9,436	0	0
340	Charges for Goods and Services	0	0	7,695	0
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	719	4,371	15,190	3,866
Total Operating Revenues:		719	120,848	22,885	3,866
Operating Expenditures					
510	General Government	0	0	0	0
520	Public Safety	5,404	118,366	0	1,470
530	Utilities	0	0	0	0
540	Transportation	0	0	0	0
550	Natural and Economic Environment	0	0	0	0
560	Social Services	0	0	0	0
570	Culture And Recreation	0	0	21,383	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		5,404	118,366	21,383	1,470
Net Operating Increase (Decrease):		-4,685	2,482	1,502	2,396
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	0	0	0	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	0	0	8,807	0
Total Nonoperating Revenues:				8,807	
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	0	0	0	0
591-593	Debt Service	0	0	0	0
594-595	Capital Expenditures	4,586	31,151	0	0
597	Transfers-Out	0	0	0	0
Total Nonoperating Expenditures:		4,586	31,151		
Increase (Decrease) in Cash and Investments		-9,271	-28,669	10,309	2,396
Ending Cash and Investments					
50810	End Fund Bal-Reserved	0	74,500	0	0
50880	End Fund Balance-Unreserved	3,673	150,724	10,309	6,506

The accompanying notes are an integral part of this Statement.

BARS Code		130 Muni Cap Impr/REET1 130	131 Muni Cap Impr/REET2 131	140 Traffic Impact Fee	310 Capital Improvement
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	0	0	0	0
30880	Beg Fund Bal-Unreserved	184,751	170,742	68,696	693,148
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	0	0	0	151,035
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	0	0	0	380,571
340	Charges for Goods and Services	0	0	17,794	0
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	0	0	92	1,219
Total Operating Revenues:		0	0	17,886	532,825
Operating Expenditures					
510	General Government	0	0	0	0
520	Public Safety	0	0	0	0
530	Utilities	0	0	0	0
540	Transportation	0	0	0	0
550	Natural and Economic Environment	0	0	0	0
560	Social Services	0	0	0	0
570	Culture And Recreation	0	0	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		0	0	17,886	532,825
Net Operating Increase (Decrease):		0	0	17,886	532,825
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	0	0	0	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	0	0	0	460,547
Total Nonoperating Revenues:					460,547
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	0	0	0	0
591-593	Debt Service	0	0	0	0
594-595	Capital Expenditures	0	0	0	505,431
597	Transfers-Out	184,751	170,742	0	96,046
Total Nonoperating Expenditures:		184,751	170,742		601,477
Increase (Decrease) in Cash and Investments		-184,751	-170,742	17,886	391,895
Ending Cash and Investments					
50810	End Fund Bal-Reserved	0	0	0	0
50880	End Fund Balance-Unreserved	0	0	86,582	1,085,043

The accompanying notes are an integral part of this Statement.

BARS Code		401 Electric Utility	403 Water Utility	406 Storm Drainage Capital	501 Vehicle Repair & Maint
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	954,770	937,382	111,280	0
30880	Beg Fund Bal-Unreserved	3,607,295	2,052,431	1,304,875	1,000
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	0	0	0	0
320	Licenses & Permits	0	7,356	0	0
330	Intergovernmental Revenues	0	0	335,202	0
340	Charges for Goods and Services	4,012,708	2,107,396	723,514	0
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	92,328	83,983	2,938	0
Total Operating Revenues:		4,105,035	2,198,736	1,061,655	
Operating Expenditures					
510	General Government	0	0	0	0
520	Public Safety	0	0	0	0
530	Utilities	3,736,542	1,390,579	557,528	0
540	Transportation	0	0	0	138,533
550	Natural and Economic Environment	0	0	0	0
560	Social Services	0	0	0	0
570	Culture And Recreation	0	0	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		3,736,542	1,390,579	557,528	138,533
Net Operating Increase (Decrease):		368,494	808,156	504,126	-138,533
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	24,612	0	0	0
391-393	Debt Proceeds	0	0	273,740	0
397	Transfers-In	0	0	140,168	139,951
Total Nonoperating Revenues:		24,612		413,908	139,951
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	0	0	0	0
591-593	Debt Service	0	264,184	64,872	0
594-595	Capital Expenditures	49,809	563,253	209,565	1,418
597	Transfers-Out	95,143	98,697	283,491	0
Total Nonoperating Expenditures:		144,952	926,134	557,927	1,418
Increase (Decrease) in Cash and Investments		248,154	-117,978	360,107	0
Ending Cash and Investments					
50810	End Fund Bal-Reserved	1,251,299	466,644	1,119,805	0
50880	End Fund Balance-Unreserved	3,558,918	2,405,192	656,458	1,000

The accompanying notes are an integral part of this Statement.

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2012

BARS Code		Total for All funds*	001 General	002 Fire/EMS	101 Street
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	1,737,068	368,359	0	0
30880	Beg Fund Bal-Unreserved	9,964,273	188,068	159,470	79,010
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	4,108,893	2,880,682	914,048	0
320	Licenses & Permits	254,176	253,676	0	0
330	Intergovernmental Revenues	1,343,756	279,825	0	146,729
340	Charges for Goods and Services	7,210,905	313,925	0	300
350	Fines & Penalties	105,289	105,289	0	0
360	Miscellaneous Revenues	351,848	59,388	9	0
Total Operating Revenues:		13,374,867	3,892,784	914,057	147,029
Operating Expenditures					
510	General Government	1,145,860	1,145,860	0	0
520	Public Safety	3,390,019	2,102,210	1,269,874	0
530	Utilities And Environment	5,420,953	33,197	0	0
540	Transportation	440,947	0	0	289,233
550	Economic Environment	103,837	103,837	0	0
560	Mental & Physical Health	0	0	0	0
570	Culture And Recreation	159,007	159,007	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		10,660,623	3,544,110	1,269,874	289,233
Net Operating Increase (Decrease):		2,714,244	348,673	-355,817	-142,204
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	160,671	130,295	0	0
391-393	Debt Proceeds	139,877	90,107	0	0
397	Transfers-In	1,018,219	250,500	254,400	224,875
Total Nonoperating Revenues:		1,318,766	470,902	254,400	224,875
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	123,500	0	0	0
591-593	Debt Service	372,346	0	0	96,875
594-595	Capital Expenditures	2,241,474	245,970	0	12,199
597	Transfers-Out	1,018,219	401,367	0	30,208
Total Nonoperating Expenditures:		3,755,538	647,337		139,282
Increase (Decrease) in Cash and Investments		277,472	172,239	-101,417	-56,611
Ending Cash and Investments					
50810	End Fund Bal-Reserved	2,366,958	323,526	0	0
50880	End Fund Balance-Unreserved	9,611,855	405,140	58,053	22,400

The accompanying notes are an integral part of this Statement.

BARS Code		103 Strategic Reserve	105 Drug Seizure	107 Criminal Justice	118 Reserve Officers
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	0	0	11,038	0
30880	Beg Fund Bal-Unreserved	818,619	7,806	271,595	2,392
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	0	0	97,391	0
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	0	0	15,943	0
340	Charges for Goods and Services	0	0	0	0
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	18,760	7,791	458	6,317
Total Operating Revenues:		18,760	7,791	113,791	6,317
Operating Expenditures					
510	General Government	0	0	0	0
520	Public Safety	0	2,653	10,681	4,600
530	Utilities And Environment	0	0	0	0
540	Transportation	0	0	0	0
550	Economic Environment	0	0	0	0
560	Mental & Physical Health	0	0	0	0
570	Culture And Recreation	0	0	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:			2,653	10,681	4,600
Net Operating Increase (Decrease):		18,760	5,138	103,111	1,717
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	0	0	0	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	0	0	0	0
Total Nonoperating Revenues:					
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	0	0	0	0
591-593	Debt Service	0	0	0	0
594-595	Capital Expenditures	0	0	56,000	0
597	Transfers-Out	25,000	0	75,850	0
Total Nonoperating Expenditures:		25,000		131,850	
Increase (Decrease) in Cash and Investments		-6,240	5,138	-28,739	1,717
Ending Cash and Investments					
50810	End Fund Bal-Reserved	0	0	40,000	0
50880	End Fund Balance-Unreserved	812,379	12,944	213,893	4,109

The accompanying notes are an integral part of this Statement.

BARS Code		130 REET1	131 REET2	140 Traffic Impact Fee	310 Capital Improvement
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	0	0	0	0
30880	Beg Fund Bal-Unreserved	172,951	62,472	14,357	311,189
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	108,525	108,247	0	0
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	0	0	0	879,219
340	Charges for Goods and Services	0	0	54,338	0
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	149	24	2	355
Total Operating Revenues:		108,674	108,270	54,339	879,573
Operating Expenditures					
510	General Government	0	0	0	0
520	Public Safety	0	0	0	0
530	Utilities And Environment	0	0	0	0
540	Transportation	0	0	0	0
550	Economic Environment	0	0	0	0
560	Mental & Physical Health	0	0	0	0
570	Culture And Recreation	0	0	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:					
Net Operating Increase (Decrease):		108,674	108,270	54,339	879,573
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	0	0	0	0
391-393	Debt Proceeds	0	0	0	49,770
397	Transfers-In	0	0	0	0
Total Nonoperating Revenues:					49,770
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	0	0	0	0
591-593	Debt Service	0	0	0	8,216
594-595	Capital Expenditures	0	0	0	539,168
597	Transfers-Out	96,875	0	0	0
Total Nonoperating Expenditures:		96,875			547,384
Increase (Decrease) in Cash and Investments		11,799	108,270	54,339	381,959
Ending Cash and Investments					
50810	End Fund Bal-Reserved	0	0	0	0
50880	End Fund Balance-Unreserved	184,751	170,742	68,696	693,148

The accompanying notes are an integral part of this Statement.

BARS Code		401 Electric Utility	403 Water Utility	406 Storm Drainage	407 Storm Drainage/Capital
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	929,713	297,152	130,806	0
30880	Beg Fund Bal-Unreserved	3,495,811	3,184,384	495,277	697,733
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	0	0	0	0
320	Licenses & Permits	0	500	0	0
330	Intergovernmental Revenues	13,737	6,748	1,555	0
340	Charges for Goods and Services	4,051,150	2,074,863	716,331	0
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	140,744	112,729	3,166	1,958
Total Operating Revenues:		4,205,631	2,194,840	721,052	1,958
Operating Expenditures					
510	General Government	0	0	0	0
520	Public Safety	0	0	0	0
530	Utilities And Environment	3,760,351	1,182,284	445,121	0
540	Transportation	0	0	0	0
550	Economic Environment	0	0	0	0
560	Mental & Physical Health	0	0	0	0
570	Culture And Recreation	0	0	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		3,760,351	1,182,284	445,121	
Net Operating Increase (Decrease):		445,280	1,012,556	275,931	1,958
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	7,107	23,269	0	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	0	0	0	138,868
Total Nonoperating Revenues:		7,107	23,269		138,868
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	123,500	0	0	0
591-593	Debt Service	0	267,255	0	0
594-595	Capital Expenditures	72,902	1,167,432	5,759	142,044
597	Transfers-Out	119,443	92,861	176,615	0
Total Nonoperating Expenditures:		315,845	1,527,548	182,374	142,044
Increase (Decrease) in Cash and Investments		136,542	-491,724	93,557	-1,218
Ending Cash and Investments					
50810	End Fund Bal-Reserved	954,770	937,382	111,280	0
50880	End Fund Balance-Unreserved	3,607,296	2,052,431	608,360	696,515

The accompanying notes are an integral part of this Statement.

BARS Code		501 Vehicle R&M
Beginning Cash and Investments		
30810	Beg Fund Bal-Reserved	0
30880	Beg Fund Bal-Unreserved	3,138
38800/58800	Prior Period Adjustments, net	0
Operating Revenues		
310	Taxes	0
320	Licenses & Permits	0
330	Intergovernmental Revenues	0
340	Charges for Goods and Services	0
350	Fines & Penalties	0
360	Miscellaneous Revenues	0
Total Operating Revenues:		
Operating Expenditures		
510	General Government	0
520	Public Safety	0
530	Utilities And Environment	0
540	Transportation	151,714
550	Economic Environment	0
560	Mental & Physical Health	0
570	Culture And Recreation	0
598	Intergovernmental Payments	0
Total Operating Expenditures:		151,714
Net Operating Increase (Decrease):		-151,714
Nonoperating Revenues		
370, 380, 395, 398	Other Financing Sources	0
391-393	Debt Proceeds	0
397	Transfers-In	149,576
Total Nonoperating Revenues:		149,576
Nonoperating Expenditures		
580, 596, 599	Other Financing Uses	0
591-593	Debt Service	0
594-595	Capital Expenditures	0
597	Transfers-Out	0
Total Nonoperating Expenditures:		
Increase (Decrease) in Cash and Investments		-2,138
Ending Cash and Investments		
50810	End Fund Bal-Reserved	0
50880	End Fund Balance-Unreserved	1,000

The accompanying notes are an integral part of this Statement.

FIDUCIARY FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2013

BARS Code		Total for All funds	631 Trust Fund	632 Municipal Court	650 Treasurer Suspense Fund
308	Beginning Cash and Investments	342,044	207,712	58,675	75,657
388 and 588	Prior Period Adjustments, net	0	0	0	0
310-360	Revenues	500	332	0	168
380-390	Other Increases and Financing Sources	552,209	156,027	396,182	0
510-570	Expenditures	0	0	0	0
580-590	Other Decreases and Financing Uses	409,486	0	409,486	0
Increase (Decrease) in Cash and Investments		143,223	156,359	-13,304	168
508	Ending Cash and Investments	485,268	364,071	45,372	75,825

The accompanying notes are an integral part of this Statement.

FIDUCIARY FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2012

BARS Code		Total for All funds	631 Trust Funds	632 Municipal Court	650 Treasurer Suspense
308	Beginning Cash and Investments	338,206	207,848	54,850	75,508
388 and 588	Prior Period Adjustments, net	0	0	0	0
310-360	Revenues	446,293	450	445,694	149
370-390	Other Increases and Financing Sources	0	0	0	0
510-570	Expenditures	442,077	208	441,869	0
580-590	Other Decreases and Financing Uses	0	0	0	0
Increase (Decrease) in Cash and Investments		4,216	242	3,825	149
508	Ending Cash and Investments	342,044	207,712	58,675	75,657

The accompanying notes are an integral part of this Statement.

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Milton reports financial activity using the revenue and expenditure classifications, statements and schedules contained in the Cash Basis Budgeting, Accounting and Reporting System (BARS) manual. This basis of accounting and reporting is another comprehensive basis of accounting (OCBOA) that is prescribed by the State Auditor’s Office under the authority of Washington State Law, Chapter 43.09 RCW.

The City of Milton was incorporated in 1907, and operated under the laws of the State of Washington applicable to a fourth class town until 1989. At that time, the local government exercised its option to change the classification of Milton’s government to an optional municipal code city, with a mayor-council form of government.

The City is a general purpose government and provides the following services to local residents and property owners:

- public safety
- street improvement
- parks and recreation
- community activities
- social services
- general administration
- electric utility
- water utility
- storm water management utility

The City of Milton uses single-entry, cash basis accounting, which is a departure from generally accepted accounting principles (GAAP).

A. Fund Accounting

The accounts of the City of Milton are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of single-entry accounts that comprises its cash, revenues, investments, and expenditures, as appropriate. The City’s resources are allocated to and accounted for in individual funds depending on their intended purpose. The following are the fund types used by the City of Milton:

GOVERNMENTAL FUND TYPES:

General Fund

This fund is the primary operating fund of the City. It accounts for all financial resources except those required or elected to be accounted for in another fund.

- 001 General Fund
- 002 Fire / EMS Fund

Special Revenue Funds

These funds account for specific revenue sources that are restricted or committed to expenditures for specified purposes of the city.

- 101 Street Fund
- 103 Strategic Reserve Fund
- 105 Uniform Controlled Substances Fund
- 107 Criminal Justice Fund
- 116 Community Events Fund
- 118 Police Reserve Officer's Fund
- 130 Municipal Capital Improvement Fund/REET1
- 131 Municipal Capital Improvement Fund/REET2
- 140 Traffic Impact Mitigation Fund

Debt Service Funds

These funds account for the financial resources that are restricted, committed, or assigned to expenditures for principal, interest and related costs on general long-term debt. Currently, the city has no Debt Service Funds.

Capital Projects Funds

These funds account for financial resources which are restricted, committed, or assigned for the acquisition or construction of capital facilities or other capital assets.

- 310 Capital Improvement Fund

PROPRIETARY FUND TYPES:

Enterprise Funds

These funds account for operations that provide goods or services to the general public and are supported primarily through user fees.

- 401 Electric Utility Fund
- 403 Water Utility Fund
- 406 Storm Water Drainage Fund
- 407 Storm Water Capital Projects Fund

Internal Service Funds

These funds account for operations that provide goods or services to other departments or funds of the city on a cost-reimbursement basis.

- 501 Vehicle Repair & Maintenance Fund

FIDUCIARY FUND TYPES:

Agency Funds

These funds account for assets held by the city in a trustee capacity or as an agent on behalf of others.

- 631 Trust Fund
- 632 Municipal Court
- 650 Treasurer Suspense Fund

B. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Revenues are recognized only when cash is received and expenditures are recognized when paid, including those properly chargeable against the report year budget appropriations as required by state law.

In accordance with state law, the City also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

Purchases of capital assets are expensed during the year of acquisition. There is no capitalization of capital assets, nor allocation of depreciation expense. Inventory is expensed when purchased.

The basis of accounting described above represents a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

C. Budgets

The City adopts annual appropriated budgets for seventeen funds. These budgets are appropriated at the fund level (except for the general fund, where budget is adopted at the department level). The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting. The appropriated and actual expenditures for the legally adopted budgets were as follows:

Fund/Department	2013 Adopted Budget	2013 Amended Budget	2013 Actual Expenditures	Variance
General Fund:				
City Council	\$ 30,732	\$ 34,232	\$ 31,447	\$ 2,785
Municipal Court	267,359	267,359	246,932	20,427
Executive	166,919	166,919	156,802	10,118
Finance	175,374	174,730	196,977	(22,247)
Legal Services	67,000	67,000	65,366	1,634
Employee Benefit Programs	167,672	167,816	94,823	72,993
Facilities	70,975	92,388	68,499	23,889
Non-Departmental	557,374	623,827	575,065	48,762
Police Department	1,738,414	1,738,414	1,882,126	(143,712)
Community Development	208,989	262,828	225,758	37,070
Engineering	41,833	41,833	34,137	7,696
Activity Center	38,546	25,446	20,532	4,914
Parks	135,226	141,714	138,123	3,591
Total General Fund	\$ 3,666,413	\$ 3,804,506	\$ 3,736,588	\$ 67,918
Other Funds:				
Fire/EMS Fund	\$ 1,169,095	\$ 1,169,944	\$ 1,167,944	\$ 2,000
Street Fund	493,365	514,626	473,184	41,442
Strategic Reserve	-	-	-	-
Drug Seizure Fund	15,000	15,000	9,990	5,010
Criminal Justice Fund	137,990	177,990	149,517	28,473
Community Events Fund	-	25,100	21,382	3,718
Reserve Officer Fund	7,000	7,000	1,470	5,530
Capital Improv/REET1 Fund	97,046	97,046	96,046	1,000
Capital Improv/REET2 Fund	1,000	1,000	-	1,000
Traffic Impact Fee Fund	-	-	-	-
Capital Improvement Fund	4,021,710	4,021,710	601,477	3,420,233
Electric Utility Fund	4,495,797	4,499,697	3,881,495	618,202
Water Utility Fund	2,279,151	2,536,313	2,316,713	219,600
Storm Drainage Fund	1,160,121	1,165,202	941,854	223,348
Storm Drainage/Capital Fund	249,000	406,850	173,602	233,248
Vehicle Repair & Maintenance Fund	140,729	140,729	139,951	778
Total Funds	\$ 17,933,417	\$ 18,582,713	\$ 13,711,213	\$ 4,871,500

Budgeted amounts are authorized to be transferred between departments within any fund and between object classes within departments; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the city council.

D. Cash

It is the City's policy to invest all temporary cash surpluses. The amount is included in the cash and investments shown on the statements of fund resources and uses arising from cash transactions. The interest on these investments is prorated to the various funds as appropriate.

E. Deposits

The City's deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission.

F. Investments

See Note 3, Investments.

G. Capital Assets

Capital assets are typically assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of five years. The capital assets of the city are recorded as expenditures when purchased.

H. Compensated Absences

Vacation leave can be accumulated up to 240 hours (336 hours for uniformed police employees) and is payable at separation or retirement.

Sick leave can be accumulated up to 960 hours. For employees hired prior to January 1, 1993, with five years of service, 50% of unused sick leave is payable at separation or retirement. For employees hired after January 1, 1993, no unused sick leave is payable at separation. The city currently has only one employee eligible for payment of accrued sick leave upon separation.

I. Long Term Debt

See Note 6, Long Term Debt.

J. Other Financing Sources or Uses

The City's "Other Financing Sources or Uses" are amounts classified separately from revenues and/or expenditures. These amounts may consist of the following:

Other sources: Interfund transfers-in
Insurance recoveries/reimbursements
Interfund loan proceeds

Other uses: Interfund transfers-out
Interfund loan payments
Capital lease payments

The city's 2013 interfund transfers are summarized in the following table:

Transfers FROM:								
Transfers TO:	General	Streets	REET Funds	Cap Improv	Electric Utility	Water Utility	Storm Drainage	Total
General					57,000	63,000	32,000	\$ 152,000
Fire/EMS	-							\$ -
Streets	225,000			96,046				\$ 321,046
Criminal Justice								\$ -
Community Events	8,807							\$ 8,807
REET1								\$ -
REET2								\$ -
Capital Improvement			355,493				105,054	\$ 460,547
Storm Drainage								\$ -
Vehicle Repair & Maint	24,934	34,907			38,143	35,697	6,269	\$ 139,951
								\$ 1,082,351
Total	\$ 258,741	\$ 34,907	\$ 355,493	\$ 96,046	\$ 95,143	\$ 98,697	\$ 143,323	\$ 1,082,351

K. Risk Management

The City of Milton is a member of the Washington Cities Insurance Authority (WCIA).

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 162 Members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials’ errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence self insured layer, and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members’ deductible to \$750,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance.

In-house services include risk management consultation, loss control field services, claims and litigation administration, and loss analyses. WCIA contracts for the claims investigation consultants for personnel issues and land use problems, insurance brokerage, and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, and administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

L. Reserved Fund Balance

The City of Milton financial policies provide for a General Fund balance reserve of 8% or 1/12th of the prior year annual revenues. In the event the City is unable to meet the reserve of 8%, a minimum of 1% should be added to each fiscal year until the reserve balance returns to 8%.

For all utility funds, the City maintains an operating reserved fund balance of 25% or 1/4 of the current year's annual expenses. In the event the City is unable to meet the reserve of 25%, a minimum of 5% should be added to each fiscal year until the reserve balance returns to 25%.

As of December 31, 2013, the following represents the reserved funds of the City of Milton:

Fund	Purpose	Amount
General Fund	8% Reserve per policy	\$311,966
Criminal Justice Fund	Future funding of FTE/Officer as required by grant	\$74,500
Electric Utility	25% Reserve per policy	\$1,101,299
	Reserve for Vehicle Replacement	\$150,000
Water Utility	25% Reserve per policy	\$362,782
	Reserve for Bond Projects	\$103,862
Storm Drainage	25% Reserve per policy	\$181,825
	Reserve for Capital Projects	\$664,240

NOTE 2 - COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of finance-related legal or contractual provisions. There have been no expenditures exceeding legal appropriations in any of the funds of the City.

NOTE 3 – INVESTMENTS

The City's investments are insured, registered or held by the City or its agent in the City's name.

Investments at December 31, 2013:

Local Government Investment Pool	\$ 6,159,867
U S Government Agency Securities (face value)	<u>5,660,000</u>
Total Investments at December 31, 2013	\$11,819,867

NOTE 4 - PROPERTY TAXES

The city limits of Milton reach into two counties: King County and Pierce County. The County Treasurers serve as agents to collect property taxes levied in the county for all taxing authorities. Property tax revenues are recognized when funds are received by the City. Delinquent taxes are considered fully collectible because a lien affixes to the property after taxes are levied.

The City's regular levy for 2013 was \$3.10 per \$1,000 on an assessed valuation of \$583,971,779 for a regular levy of \$1,810,312.51. The City's EMS levy for 2013 was \$0.50 per \$1,000 on an assessed valuation of \$583,971,779 for an EMS levy of \$291,985.89.

NOTE 5 – INTERFUND LOANS

The following table displays interfund loan activity during 2013:

Borrowing Fund	Lending Fund	Balance 1/1/13	New Loans	(Principal) Repayments	Balance 12/31/13
General	Electric Utility	\$ 123,500	\$ -	\$ 24,612	\$ 98,888
		-	-	-	-
	TOTALS	\$ 123,500	\$ -	\$ 24,612	\$ 98,888

On August 6, 2012, through Ordinance 1794-12, an interfund loan was authorized from the Electric Utility Fund to the General Fund in an amount not to exceed \$200,000 for the purposes of acquiring and improving the Activity Center building. It was the intention to remodel the facility for use by the Police Department. This building was previously used as the Activity Center/Library and was constructed using Federal Community Development Block Grant (CDBG) funds and thus, restricted to certain uses. All restrictions were lifted by purchasing the property from Pierce County at fair market value, making the facility available for general governmental use. In October of 2012, a loan in the amount of \$123,500 was made, from the Electric Utility to the General Fund, to purchase the building. Terms of the loan allow for annual payments over five years, with interest set at .1789% (LGIP rate as of March 31, 2013).

NOTE 6 – DEBT SERVICE REQUIREMENTS

The accompanying Schedule of Long-Term Debt (09) provides more details of the outstanding debt and liabilities of the city and summarizes the city's debt transactions for the year ended December 31, 2013.

The debt service requirements for general obligation bonds, revenue bonds, public works trust fund loans, LOCAL Program loans and interfund loans, including both principle and interest, are as follows:

	General Obligation Debt	Revenue Debt	Other Debt (1)	Total Debt
2013	\$ 19,903	\$ 264,832	\$ 185,313	\$ 470,049
2014	19,903	295,668	120,341	435,913
2015	19,903	293,768	119,593	433,265
2016	19,903	225,896	118,845	364,644
2017	-	195,460	118,097	313,557
2018-2022	-	974,550	455,204	1,429,754
2023-2027	-	975,750	136,277	1,112,027
2028-2032	-	583,750	-	583,750
	<u>\$ 79,613</u>	<u>\$ 3,809,675</u>	<u>\$ 1,253,671</u>	<u>\$ 5,142,959</u>

(1) *Other Debt* includes public works loans and interfund loans.

NOTE 7 - PENSION PLANS

Substantially all of the City’s full time and qualifying part-time employees participate in either the Law Enforcement Officers and Firefighters (LEOFF) retirement plan or the Public Employees Retirement Systems (PERS) plan administered by the Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. Actuarial information is on a system-wide basis and is not considered pertinent to the city’s financial statements. Contributions to the systems by both employee and employer are based upon gross wages covered by plan benefits.

Historical trend or other information regarding each plan is presented in the Washington State Department of Retirement Systems annual financial report. A copy of this report may be obtained by writing to:

Department of Retirement Systems
 Communications Unit
 PO Box 48380
 Olympia, WA 98504-8380

NOTE 8 – OTHER DISCLOSURES

OPEB (Other Post Employment Benefits)

The City has a commitment to pay for post employment benefits for employees that belong to LEOFF1. These benefits include medical, dental, vision, and nursing care. Three former employees (firefighters) received benefits during the year and \$71,154.74 was paid out for those benefits during the year.

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Milton reports financial activity using the revenue and expenditure classifications, statements and schedules contained in the Cash Basis Budgeting, Accounting and Reporting System (BARS) manual. This basis of accounting and reporting is another comprehensive basis of accounting (OCBOA) that is prescribed by the State Auditor’s Office under the authority of Washington State Law, Chapter 43.09 RCW.

The City of Milton was incorporated in 1907, and operated under the laws of the State of Washington applicable to a fourth class town until 1989. At that time, the local government exercised its option to change the classification of Milton’s government to an optional municipal code city, with a mayor-council form of government.

The City is a general purpose government and provides the following services to local residents and property owners:

- public safety
- street improvement
- parks and recreation
- community activities
- social services
- general administration
- electric utility
- water utility
- storm water management utility

The City of Milton uses single-entry, cash basis accounting, which is a departure from generally accepted accounting principles (GAAP).

a. Fund Accounting

The accounts of the City of Milton are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of single-entry accounts that comprises its cash, revenues, investments, and expenditures, as appropriate. The City’s resources are allocated to and accounted for in individual funds depending on their intended purpose. The following are the fund types used by the City:

GOVERNMENTAL FUND TYPES:

General Fund

This fund is the primary operating fund of the City. It accounts for all financial resources except those required or elected to be accounted for in another fund.

- 001 General Fund
- 002 Fire / EMS Fund

Special Revenue Funds

These funds account for revenues that are legally restricted or designated to finance particular activities of the City.

- 101 Street Fund
- 103 Strategic Reserve Fund
- 105 Uniform Controlled Substances Fund
- 107 Criminal Justice Fund
- 118 Police Reserve Officer's Fund
- 130 Municipal Capital Improvement Fund/REET1
- 131 Municipal Capital Improvement Fund/REET2
- 140 Traffic Impact Mitigation Fund

Debt Service Funds

These funds account for revenues used to service principal, interest payments long-term debt obligations. Currently the City has no Debt Service Funds.

Capital Projects Funds

These funds account for financial resources which are designated for the acquisition or construction of general government capital projects.

- 310 Capital Improvement Fund

PROPRIETARY FUND TYPES:

Enterprise Funds

These funds account for operations that provide goods or services to the general public. They are supported primarily through user charges.

- 401 Electric Utility Fund
- 403 Water Utility Fund
- 406 Storm Water Drainage Fund
- 407 Storm Water Capital Projects Fund

Internal Service Funds

These funds provide goods or services to other funds, departments or agencies of the government on a cost-reimbursement basis.

- 501 Vehicle Repair & Maintenance Fund

FIDUCIARY FUND TYPES:

Agency Funds

These funds account for assets that the City holds for others in an agency capacity.

- 631 Trust Fund
- 632 Municipal Court
- 650 Treasurer Suspense Fund

b. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported on the financial statements. Revenues are recognized only when cash is received and expenditures are recognized when paid, including those properly chargeable against the report year budget appropriations as required by state law.

In accordance with state law, the City also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

Purchases of capital assets are expensed during the year of acquisition. There is no capitalization of capital assets, nor allocation of depreciation expense. Inventory is expensed when purchased.

The basis of accounting described above represents a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

c. Budgets

The City adopts annual appropriated budgets for sixteen funds. These budgets are appropriated at the fund level (except for the general fund, where budget is adopted at the department level). The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

The appropriated and actual expenditures for the legally adopted budgets were as follows:

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
General Fund:			
City Council	\$ 57,984	\$ 55,950	\$ 2,034
Municipal Court	257,148	268,291	(11,143)
Executive	209,419	185,153	24,266
Finance	186,347	187,315	(968)
Legal Services	152,000	170,453	(18,453)
Facilities	68,656	52,581	16,075
Non-Departmental	1,032,657	857,573	175,084
Police Department	1,783,053	1,906,822	(123,769)
Community Development	217,111	202,000	15,111
Engineering	37,476	31,333	6,143
Activity Center	43,727	48,249	(4,522)
Parks	134,107	135,620	(1,513)
Total General Fund	\$ 4,179,685	\$ 4,101,340	\$ 78,345
Other Funds:			
Fire/EMS Fund	\$ 1,269,874	\$ 1,269,874	\$ (0)
Street Fund	511,605	428,515	83,090
Strategic Reserve	25,000	25,000	-
Drug Seizure Fund	14,750	2,653	12,097
Criminal Justice Fund	206,808	142,531	64,277
Reserve Officer Fund	5,590	4,600	990
Capital Improv/REET1 Fund	222,094	96,875	125,219
Capital Improv/REET2 Fund	1,000	-	1,000
Traffic Impact Fee Fund	-	-	-
Capital Improvement Fund	706,415	547,384	159,031
Electric Utility Fund	4,590,101	4,076,196	513,905
Water Utility Fund	3,012,961	2,709,832	303,129
Storm Drainage Fund	713,605	627,496	86,109
Storm Drainage/Capital Fund	410,000	142,044	267,956
Vehicle Repair & Maintenance Fund	144,330	151,714	(7,384)
Total Funds	\$ 16,013,818	\$ 14,326,055	\$ 1,687,763

Administration is authorized to transfer budgeted amounts between departments within any fund and between object classes within departments; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the city council.

d. Cash

It is the City's policy to invest all excess cash. The amount is reported as net cash and investments on the statements of fund resources and uses arising from cash transactions. The interest on these investments is distributed to the funds proportionally.

e. Deposits

The Federal Deposit Insurance Corporation and the Washington Public Deposit Protection Commission insure the City's deposits.

f. Investments

See Note 3, Investments.

g. Capital Assets

Capital assets are long-lived assets of the City and are recorded as expenditures when purchased.

h. Compensated Absences

Vacation leave can be accumulated up to 240 hours and is payable at separation or retirement.

Sick leave can be accumulated up to 960 hours. For employees hired prior to January 1, 1993, with five years of service, 50% of unused sick leave is payable at separation or retirement. For employees hired after January 1, 1993, no unused sick leave is payable at separation. The city currently has only one employee eligible for payment of accrued sick leave upon separation.

i. Long Term Debt

See Note 6, Long Term Debt.

j. Other Financing Sources or Uses

The City's "Other Financing Sources or Uses" consist of transfers of cash between operating funds, representing corrections of posting errors, contributions of cash to a common fund for payment of common expenditures, advances for capital, and repayment of advances upon receipt of grant reimbursement. The City reestablished the Criminal Justice Fund in 2011 and transferred the previous ending fund balance from the General Fund.

The city's 2012 interfund transfers are summarized in the following table:

		Transfers FROM:							
Transfers TO:	General	Streets	Strategic Reserve	Criminal Justice	Cap Improv REET1	Electric Utility	Water Utility	Storm Drainage	Total
General			25,000.00	75,849.92		56,100.00	62,350.00	31,200.00	\$ 250,499.92
Fire/EMS	254,400.00								254,400.00
Streets	128,000.00				96,875.00				224,875.00
Criminal Justice									-
Capital Improvement									-
Storm Drainage/Capital								138,868.16	138,868.16
Vehicle Repair & Maint	18,966.74	30,207.73				63,342.51	30,511.43	6,547.18	149,575.59
									\$ 1,018,218.67
Total	\$ 401,366.74	\$ 30,207.73	\$ 25,000.00	\$ 75,849.92	\$ 96,875.00	\$ 119,442.51	\$ 92,861.43	\$ 176,615.34	\$ 1,018,218.67

k. Risk Management

The City of Milton is a member of the Washington Cities Insurance Authority (WCIA).

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 153 Members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence self insured layer, and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance.

In-house services include risk management consultation, loss control field services, claims and litigation administration, and loss analyses. WCIA contracts for the claims investigation consultants for personnel issues and land use problems, insurance brokerage, and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, and administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

l. Reserved Fund Balance

The City of Milton financial policies provide for a General Fund balance reserve of 8% or 1/12th of the prior year annual revenues. In the event the City is unable to meet the reserve of 8%, a minimum of 1% should be added to each fiscal year until the reserve balance returns to 8%.

For all utility funds, the City maintains an operating reserved fund balance of 25% or ¼ of the current year's annual expenses. In the event the City is unable to meet the reserve of 25%, a minimum of 5% should be added to each fiscal year until the reserve balance returns to 25%.

As of December 31, 2012, the following represents the reserved funds of the City of Milton:

<u>Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	8% Reserve per policy	\$323,526
Criminal Justice Fund	Future funding of FTE/Officer as required by grant	\$40,000
Electric Utility	25% Reserve per policy	\$954,770
Water Utility	25% Reserve per policy	\$299,271
	Reserve for Bond Projects	\$638,111
Storm Drainage	25% Reserve per policy	\$111,280

NOTE 2 - COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of finance-related legal or contractual provisions.
There have been no expenditures exceeding legal appropriations in any of the funds of the City.

NOTE 3 – INVESTMENTS

The City’s investments are insured, registered or held by the City or its agent in the City’s name.

Investments at December 31, 2012:

Local Government Investment Pool	\$ 5,606,640
U S Government Agency Securities (face value)	<u>6,595,000</u>
Total Investments at December 31, 2012	\$12,201,640

NOTE 4 - PROPERTY TAXES

The city limits of Milton reach into two counties: King County and Pierce County. The County Treasurers serve as agents to collect property taxes levied in the county for all taxing authorities. Property tax revenues are recognized when funds are received by the City. Delinquent taxes are considered fully collectible because a lien affixes to the property after taxes are levied.

The City’s regular levy for 2012 was \$3.10 per \$1,000 on an assessed valuation of \$634,937,208 for a regular levy of \$1,968,305.34. The City’s EMS levy for 2012 was \$0.2679 per \$1,000 on an assessed valuation of \$634,937,208 for an EMS levy of \$170,122.95.

NOTE 5 - LONG TERM DEBT

The accompanying Schedule of Long-Term Debt (09) provides a listing of the outstanding debt of the city and summarizes the city’s debt transactions for 2012. The debt service payment for the fiscal year being reported and future payment requirements, including interest, are as follows:

	PWTF Loan PW-5-93-280-026	PWTF Loan PW-02-691-034	PWTF Loan PW-04-691-047	PWTF Loan PW-04-691-046	Revenue Bonds	LOCAL Program 0590-2-1	Other Debt	Total Debt
2012	\$ 66,095	\$ 24,997	\$ 31,975	\$ 39,903	\$ 201,160	\$ 19,903	\$ 33,798	\$ 417,831
2013	64,224	24,587	31,891	39,799	199,960	19,903		380,364
2014		24,177	31,740	39,611	198,360	19,903		313,792
2015		23,768	31,590	39,423	196,460	19,903		311,144
2016		23,358	31,439	39,235	193,460	19,903		307,396
2017-2021		110,643	154,941	193,361	975,760			1,434,704
2022-2026		20,899	91,159	113,764	975,500			1,201,322
2027-2031					778,250			778,250
								-
	<u>\$ 130,319</u>	<u>\$ 252,429</u>	<u>\$ 404,735</u>	<u>\$ 505,096</u>	<u>\$ 3,718,910</u>	<u>\$ 99,516</u>	<u>\$ 33,798</u>	<u>\$ 5,144,803</u>

NOTE 6 - PENSION PLANS

The City's full time and qualifying part time employees participate in either the Law Enforcement Officers and Firefighters (LEOFF) retirement plan or the Public Employees Retirement Systems (PERS) plan administered by the Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. Actuarial information is on a system-wide basis and is not considered pertinent to the city's financial statements. Contributions to the systems by both employee and employer are based upon gross wages covered by plan benefits.

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Department of Retirement Systems
Communications Unit
PO Box 48380
Olympia, WA 98504-8380

NOTE 7 – OTHER DISCLOSURES – OPEB (Other Post Employment Benefits)

The City has a commitment to pay for post employment benefits for employees that belong to LEOFF1. These benefits include medical, dental, vision, and nursing care. Three employees received benefits during the year and \$76,940.23 was paid out for those benefits during the year.

City of Milton

Schedule of Liabilities
For the year ended December 31, 2013

Debt Type	ID. No.	Description	Maturity/Payment Due Date	Beginning Balance January 1, 2013	Additions	Reductions	Ending Balance December 31, 2013
General Obligations							
	263.81	PWTF 02-691-034	7/1/2022	204,894	0	20,489	184,405
	263.81	PWTF 04-691-047	7/1/2024	361,027	0	30,086	330,941
	263.81	PWTF 04-691-046	7/1/2024	450,550	0	37,546	413,004
	263.96	LOCAL Prgm Financing	12/1/2016	73,271	0	17,514	55,757
	259.11	Compensated Absences		98,936	139,132	136,626	101,442
		Total General Obligations:		1,188,678	139,132	242,261	1,085,549
Revenue Obligations							
	263.82	PWTF 5-93-280-026	7/1/2013	62,354	0	62,354	0
	263.52	Equip Purch/Vactor Truck	4/15/2016	0	273,740	58,506	215,234
	252.11	Water Utility, Revenue Bonds	10/1/2030	2,345,000	0	100,000	2,245,000
	259.12	Compensated Absences/Utility Funds		98,601	108,466	102,762	104,305
		Total Revenue Obligations:		2,505,955	382,206	323,622	2,564,539
		Total Liabilities:		3,694,633	521,338	565,883	3,650,088

The accompanying notes to the financial statements are an integral part of this schedule

City of Milton

Schedule of Liabilities
For the year ended December 31, 2012

Debt Type	ID. No.	Description	Maturity/Payment Due Date	Beginning Balance January 1, 2012	Additions	Reductions	Ending Balance December 31, 2012
General Obligations							
	263.81	PWTF Loan	7/1/2024	368,972	22,140	30,086	361,027
	263.81	PWTF Loan	7/1/2022	225,383	0	20,489	204,894
	263.81	PWTF Loan	7/1/2024	460,465	27,630	37,546	450,550
	263.96	LOCAL Prgm Financing	12/1/2016	0	90,107	16,836	73,271
	259.11	Compensated Absences		0	424,912	227,375	197,537
	263.51	HVAC Lease/Purch	4/24/2012	8,216	0	8,216	0
	263.51	JD Mower Lease/Purch-Fund 101,401,403,406	7/31/2012	22,695	0	22,695	0
Total General Obligations:				1,085,732	564,789	363,243	1,287,278
Revenue Obligations							
	263.82	PWTF Loan	7/1/2013	124,708	0	62,354	62,354
	252.11	Revenue Bonds/Water Utility	10/1/2030	2,445,000	0	100,000	2,345,000
Total Revenue Obligations:				2,569,708	0	162,354	2,407,354
Total Liabilities:				3,655,439	564,789	525,597	3,694,631

The accompanying notes to the financial statements are an integral part of this schedule

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
Deputy Director for Communications	Thomas Shapley Thomas.Shapley@sao.wa.gov (360) 902-0367
Public Records requests	(360) 725-5617
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov